



REPORT BY THE
DEPARTMENT OF FISH & GAME
AUDITS BRANCH

WA-09-07

AUDIT OF
NORTH CENTRAL REGION
LICENSE SALES FUNCTION

JULY 2010

Memorandum

To: Kent Smith, Regional Manager
North Central Region

Date: July 23, 2010

From: Brian A. Kwake
Department of Fish and Game

Audit Control Number
WA-09-07

Subject: Final Audit Report – North Central Region License Sales Functions

Attached is the final audit report of the North Central Region (NCR) license sales functions for the period June 2, 2008, through February 18, 2010. The audit was conducted under the authority of the Audit Branch's (AB) charter that established the AB as the unit responsible for conducting audits of the operating systems and programs of the Department of Fish and Game. The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as required by the California Government Code, Section 1236.

The NCR's response to the report agrees with our audit findings and recommendations. The AB incorporated the NCR's response as Attachment A to this report.

We would like to thank the NCR staff for their time and cooperation. Should you have any questions, please contact Meredith Taylor at (916) 445-3778.

Attachment

cc: K. Hunting
H. Carricker
H. Kiyari
J. Fong
T. Edwards
T. Montrose

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SUMMARY

The Department of Fish and Game's (DFG) Audits Branch (AB) performed an audit of the North Central Region's (NCR) license sales functions. The audit was conducted to determine whether controls over the license sales functions were adequate to ensure sales transactions were properly recorded, reported, and sales revenue was deposited, and whether the internal controls were adequate to ensure accountability for its consigned inventories of licenses, permits, tags, and stamps. The audit found the internal control structure over the license sales and inventory functions at NCR to be adequate, except for the following areas:

- Missing Deposit (Finding 1);
- Missing Inventory (Finding 2);
- Composition of Deposited Amounts (Finding 3);
- Untimely Deposits (Finding 4);
- Improper Review of Bank Deposits (Finding 5);
- Checks Not Restrictively Endorsed. (Finding 6);
- Security Violations – Safes (Finding 7);
- Separation of Duties (Finding 8);
- Automated Cashiering System Controls (Finding 9);
- Security Violations – Mail Room (Finding 10); and
- Improper Review of Inventory Reports (Finding 11).

BACKGROUND

The DFG has 11 regional and field offices that offer license sales to the public. The License and Revenue Branch (LRB) sales manual provides the DFG offices instruction on license issuance, deposit, accounting, cashiering, and reporting requirements. The License Agent System (LAS) provides a method of accounting for the sale of various licenses, permits, stamps, and other items distributed by the LRB. Part of this LAS function is the actual distribution of the various items of inventory maintained by the LRB.

Under the authority of the AB charter, the AB has initiated audits of the DFG's license sales at the 11 regional and field offices in order to provide management reasonable, but not absolute assurance, that the DFG offices are in compliance with laws relating to the sale of commercial and sport licenses. As part of this process, the NCR was selected for audit.

SCOPE, METHODOLOGY, AND OBJECTIVES

The DFG's AB audited the NCR's license sales functions for the period June 2, 2008 through February 18, 2010. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc.

Our study and evaluation included a review of applicable laws and regulations, as well as regional sales and inventory records. Audit tests and other audit procedures considered necessary to meet audit objectives were included. These tests consisted of documenting the cash and inventory internal controls, identifying control strengths and weaknesses, performing compliance testing of the license sales functions, verifying inventories, documenting and evaluating adequate separation of duties.

The objectives of the audit were to provide DFG's management with reasonable, but not absolute, assurance that:

- Controls over the license sales functions were adequate to ensure that sales transactions were properly authorized, supported, recorded, and deposited;
- Controls were adequate to ensure accountability of inventories assigned to the office and inventories consigned to the individual sales clerks; and
- Controls over automated cashiering systems were adequate.

CONCLUSION

In our opinion, the NCR has properly recorded, deposited, reported license revenue, and accounted for inventory valued at \$687,097 for the period June 2, 2008 through February 18, 2010. The internal control structure over cash receipts and inventory at the NCR in effect at February 18, 2010, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the license sales inventory, except for the weaknesses described in the Findings and Recommendations Section of this audit report.



Brian A. Kwake, Chief
Audits Branch

July 23, 2010

Audit Staff: Meredith Taylor, Auditor

FINDINGS

AND

RECOMMENDATIONS

FINDING 1 MISSING DEPOSIT

A deposit for sales of May 20, 2009, in the amount of \$2,298.75 was missing. There is a question as to whether the deposit was taken to the bank or was misplaced/lost at NCR. There was no log as to who filled out the Report of Deposit (ROD) and who took the deposit to the bank. During the audit, the NCR instituted a log as to who completes the ROD and the individual that takes the deposits to the bank.

The State Administrative Manual (SAM), Section 8023.2 requires the person supervising the individual depositing cash will verify that receipts have been deposited intact and in accordance with SAM Section 8032.1. Additionally, the California Government Code (CGC), Section 13402, requires that a satisfactory system of internal accounting and administrative controls include a method to limit access to State assets to authorized personnel and to maintain a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. Further, the SAM, Section 8080, specifies an internal control system be established to ensure assets are safeguarded.

The NCR did not properly track deposits and ensure that the deposit made it to the bank intact. There was no log as to who filled out the ROD and who took the deposits to the bank. Without proper review of deposit slips, and without a log as to who filled out the ROD and who took the deposits to the bank, the NCR is at increased risk that errors or irregularities could go undetected, therefore putting assets at risk. The current loss to the DFG is \$2,298.75. We were unable to assign accountability for the missing deposit to a specific individual, because there was neither a log as to who took the deposit to the bank nor who filled out the ROD.

RECOMMENDATION

The NCR should have the Regional Administrative Officer (RAO) I review and initial the deposits to be in compliance with SAM. In-addition, the NCR should continue to keep a log as to who completed the ROD and who takes the deposits to the bank.

NCR Response: The NCR agrees with the findings and recommendations to Finding 1. The log has been incorporated into the procedures used to track deposits and positively reconcile each deposit and amount deposited, along with who completed the ROD and who made the deposit for the day.

AB Comments: We concur with the NCR response.

FINDING 2 MISSING INVENTORY

The NCR must improve its inventory controls. Our initial physical inventory of licenses, permits, tags, and stamps valued at \$687,097 consigned to the NCR identified 197 books worth \$46,128 of missing inventory. Further review conducted later in the fieldwork phase resulted in 100 missing books being located at the LRB. These 100 books were removed from the NCR consignment. As a result, 97 books of inventory worth \$5,059 listed in the general consignment continues to be missing. The missing inventory consists of: three books of 2008 inventory worth \$785; 93 books of 2009 inventory worth \$4,186; and 1 book of 2010 inventory worth \$88.

The CGC, Section 13402, requires that a satisfactory system of internal accounting and administrative controls include a method to limit access to State assets to authorized personnel and to maintain a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. Further, the SAM, Section 8080, specifies an internal control system be established to ensure assets are safeguarded.

The Inventory Custodian was unaware of the process to return books to the LRB once the license books had expired. In-addition, the RAO I did not review the inventory being returned to LRB to ensure the inventory was in the proper format and accurate. Accordingly, this increases the risk that errors and irregularities may occur that are not promptly detected and corrected.

RECOMMENDATION

The NCR should attempt to locate the missing inventory. If the inventory cannot be located, management should remove the missing inventory using the declaration process. Thereafter, management should ensure its internal control system is adequate to track all inventories, assign responsibility, and to promptly identify missing or misplaced inventory.

NCR Response: The NCR Inventory Custodian and RAO II have received training on the process of returning books to LRB. NCR staff will attempt to locate the missing inventory, and if unable to locate, will clear the inventory through the declaration process. Inventory procedures are being reviewed and will be reinforced by retraining of those staff assigned with inventory control.

AB Comments: We concur with the NCR response.

FINDING 3 COMPOSITION OF DEPOSITED AMOUNTS

The NCR does not always ensure Customer Service Representatives (CSRs) correctly key entered payments into the cashiering system and there appears to be an excessive amount of overages and shortages. A sample of 439 sales receipts were selected for substantive testing. Forty seven items representing 11% of the sample disclosed cash, check, and credit card tender totals did not agree with the actual deposit information. For these 47 items, there were 24 overages and 23 shortages.

The SAM, Section 8022, requires the NCR maintain records containing tender total information. These records should be maintained in a manner whereby they can be readily audited. Section 8070, requires each department establish standards of performance for their cashiers and prescribe corrective action to be utilized when performance standards are not satisfied.

The NCR does not always ensure that CSRs correctly key enter payments into the cashiering system or have standards in place to define acceptable levels of overages and shortages. The DFG does not currently have written policies and procedures that clearly identify performance expectations for its CSRs, including possible corrective action that would be taken for excessive tender total errors and for excessive overages and shortages. Although the dollar amounts in the errors disclosed at the NCR were not material, these types of errors have been exploited in the past to embezzle funds at other DFG locations. However, the risk of theft of funds can be reduced or detected providing the NCR minimizes overages and shortages and properly reviews the accuracy of cash tender totals and the composition of the deposits.

RECOMMENDATION

The NCR should ensure that cash tender totals are correct, agree with deposit information, and minimize the instances that cash overages and shortages occur. The NCR should ensure the CSRs are properly trained on the usage of the cashiering system to minimize errors and/or overages and shortages. Further, the NCR should work with the DFG headquarters and LRB to implement policies and procedures that clearly identify performance expectations for its CSRs, including possible corrective action that will be taken if their cash tender totals do not agree with deposit information and for excessive overages and shortages.

NCR Response: While the NCR agrees with the findings, the recommendations to Finding 3 are as much associated with the equipment and extensively modified accounting system used, as it is with the staff assigned to the duties of

license sales. Any attempt to take corrective action with employees using this system would easily be challenged due to the system's age and degree of modification that has occurred over years of fixes. The Department has been slow to make the equipment and programming changes necessary.

On the other hand, the NCR has received training from LRB and management continues to emphasize the importance of accuracy with the CSRs for all transactions. The NCR continues to review the accuracy of cash tender totals and the composition of the deposits. The NCR would welcome working with LRB and HQ staff to develop and implement policies and procedures for the CSRs.

AB Comments: We concur with the NCR response.

FINDING 4 UNTIMELY DEPOSITS

Deposits are not always made timely by the NCR. The NCR makes bank deposits every 10 days regardless of the amount of cash, checks, and money orders accumulated. However, we disclosed there were 23 deposits not made timely that contained over \$1,000 in cash.

The *Cash Register and Cash Transfer Policies and Procedures Manual* issued by the LRB requires that offices make deposits when cash collections exceed \$500. Additionally, the SAM, Section 8032.1 requires agencies with safes can accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders, and warrants, whichever occurs first, and then must make deposits.

RECOMMENDATION

We recommend the NCR make timely deposits in accordance with the SAM, Section 8032.1 and The *Cash Register and Cash Transfer Policies and Procedures Manual*.

NCR Response: The NCR agrees with the findings and recommendations to Finding 4. Retraining all staff involved with emphasize on this finding will be done. The NCR will make timely deposits according to SAM.

AB Comments: We concur with the NCR response.

FINDING 5 IMPROPER REVIEW OF BANK DEPOSITS

The NCR does not always ensure that deposits slips (also called Report of Deposits) are correct before making a deposit at the bank. We selected a sample of 198 Report of Deposits (RODs) to conduct substantive testing. We disclosed 23 out of 198 (12%) sampled items had errors. We disclosed the date of the actual deposit varied from one to seven days compared to the date on the RODs. One ROD had an addition error.

SAM, Section 8023.2 requires the person supervising the individual depositing cash will verify that receipts have been deposited intact and in accordance with SAM Section 8032.1. Additionally, the CGC, Section 13402, requires that a satisfactory system of internal accounting and administrative controls include a method to limit access to State assets to authorized personnel and to maintain a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. Further, the SAM, Section 8080, specifies an internal control system be established to ensure assets are safeguarded.

Without proper review of the RODs, the NCR is at increased risk that errors or irregularities could go undetected which could result in the loss or theft of State assets.

RECOMMENDATION

Before making the deposit at the bank, the NCR should have the RAO I review and initial the deposits to be in compliance with the SAM and the deposits should be made on the date of the ROD.

NCR Response: At the NCR, the RAO II reviews and initials the deposits. We agree with the finding and recommendations to Finding 5. Procedural changes incorporated to address Finding 1 will emphasize the procedures necessary to comply with the recommendations in Finding 5 as well.

AB Comments: We concur with the NCR response.

FINDING 6 CHECKS NOT RESTRICTIVELY ENDORSED

NCR does not ensure that all incoming checks and money orders are restrictively endorsed timely. Specifically:

- Individuals opening the mail do not always restrictively endorse the checks and money orders; and

- The CSRs have stated that they do not always endorse checks the same day received. Sometimes the CSRs wait until the day of deposit to endorse the checks. The checks have even been endorsed by the Cash Custodian when filling out the ROD for deposit.

SAM, Section 8023, states all checks, money orders, and warrants received for deposit will be restrictively endorsed for deposit as soon as possible after receipt, but no later than the end of the working day. In-addition, the *Cash Register and Cash Transfer Policies and Procedures* Manual issued by the LRB requires that checks must be endorsed at the point of sale or when the mail is opened. Additionally, the CGC, Section 13402, requires that a satisfactory system of internal accounting and administrative controls include a method to limit access to State assets to authorized personnel and to maintain a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. Further, the SAM, Section 8080, specifies an internal control system be established to ensure assets are safeguarded.

Without timely restrictive endorsements of checks and money orders, the NCR is at an increased risk of lost or stolen negotiable instruments and is susceptible to possible fraud or abuse that may not be detected.

RECOMMENDATION

We recommend the NCR ensure incoming checks and money orders are restrictively endorsed for deposit as soon as possible after receipt, but no later than the end of the working day.

NCR Response: The NCR agrees with the findings and recommendations to Finding 6. Retraining staff responsible for this task will emphasize the need to restrictively endorse checks as they are received and opened by mail, and not later than the date of receipt.

AB Comments: We concur with the NCR response.

FINDING 7 SECURITY VIOLATIONS - SAFES

Access to the two safes at the NCR is not limited to key personnel. One safe is a key operated safe and a key has been provided to numerous NCR employees over the years. Although keys have been returned as staff have transferred, accepted jobs elsewhere, retired, or their respective duties have changed, the safe has never been re-keyed and there is no record of who has access to the safe, or if all the keys have been returned. The key

operated safe contains cash for deposits. The other safe is a combination style safe. There is no record of who has access to the safe, how many staff were provided the combination, or when the combination was last changed. The combination safe contains the CSRs cash drawers. Anyone in the office potentially has access to both of the safes and their contents. Accordingly, should there be a theft of cash or other contents of the safes, it is not possible to determine individual accountability. Although the NCR has a camera security system in-place to mitigate the increased risk of theft or loss, the camera security system is non-operational with no current plans to be repaired. In-addition, the camera security system does not provide coverage of the area of either safe.

The SAM, Section 8024, requires access to the safe to be limited to as few persons as possible. A record will be kept showing the date the combination was last changed and the names of the persons knowing the present combination. The combination will be changed when it becomes known to an excessive number of employees. In-addition, page 22 of the *Cash Register and Cash Transfer Policies and Procedures* Manual issued by the LRB, specifies that the combination to the safe in the Regional Offices will be known to the RAO I and the RAO III. Additionally, the CGC, Section 13402, requires that a satisfactory system of internal accounting and administrative controls include a method to limit access to State assets to only authorized personnel. Further, the SAM, Section 8080, specifies an internal control system be established to ensure assets are safeguarded.

The NCR is aware of the security issues pertaining to the two safes, but is reluctant to re-key the one safe and to fix the cameras monitoring access to the room where the safes are located. We were advised by the NCR the region has never kept a record of when the combination to the one safe was last changed and has never re-keyed the other safe. The NCR has never kept a record of who has access to either safe. Because of the security violations within the NCR relative to the two safes, it is possible that licenses, permits, tags, stamps, and money can be lost, stolen, or misplaced. Further, if these items are lost, stolen, or misplaced it will be difficult to place accountability to any one individual.

RECOMMENDATION

The NCR should improve its physical security procedures involving the two safes. The locks to the safes should be changed in accordance with State and DFG policy, and only the RAO I and RAO III should have the keys and know the combination. A written record should be kept showing the date the combination or lock was last changed and the names of persons knowing the present combination. The combination or lock should be changed when it becomes known to an excessive number of employees, or if any employee having knowledge of the combination or key to the lock leaves the employ of

the NCR, or no longer requires the combination or key to the safe in the performance of his or her duties. The safes should be kept locked at all times to ensure limited access to the safes. Additionally, the security cameras should be repaired and kept in proper working order at all times.

NCR Response: The NCR agrees with the findings and recommendations to Finding 7. A new safe has been purchased (combination only) and is waiting for installation. All keys will be collected by those who had access to the old "keyed" safe and all combination safes will be changed and a log created and maintained to track when this and any further combination changes occur, along with the signatures of those who know the combination.

When the NCR is able to procure services, the security cameras will be repaired or replaced and in working condition.

AB Comments: We concur with the NCR response.

FINDING 8 SEPARATION OF DUTIES

We observed the following separation of duty conflicts at the NCR:

- The Inventory Custodian orders, receives, compares received to ordered, logs, assigns to sales staff, and reconciles to the LAS reports all inventory for the NCR; and
- The Cash Custodian also prepares and makes the deposits.

The SAM Section 8080 requires each department maintain an adequate system of internal control which includes separation of duties. The DFG *Cash Register and Cash Transfer Policies and Procedures* Manual section on Receiving License Inventory, page 11 requires when a shipment of licenses arrive, inventory must be received and verified by the supervisor and then given to the Inventory Custodian for verification. The SAM, Section 8080.1, requires that NCR adequately separate cash collection functions. Duties that must be segregated include the receipt and depositing of remittances. Further, the CGC, Section 13402, requires a satisfactory system of internal accounting and administrative control include an organizational structure that segregates duties to ensure the adequate protection of State assets.

The NCR was not completely aware of the necessary separation of duties required, and stated that staffing issues are a problem. As a result of the improper separation of duties, NCR is susceptible to possible fraud and abuse that it may not detect.

RECOMMENDATION

The NCR needs to review the duties of the Inventory and Cash Custodians. No one individual can be responsible for more than one of the following functions: ordering, receiving, comparing received to ordered, logging, assigning to sales staff, and reconciling to the LAS reports inventory for the NCR, and preparing the deposits, and making the deposits.

NCR Response: The NCR agrees with the findings and recommendations to Finding 8, although we do not have the staff available to split all the duties outlined above, and supply back-up when necessary to cover vacations, sick leave, and vacancies. The NCR has worked with LRB to split duties to provide the best possible separation of duties given current staffing levels.

AB Comments: We concur with the NCR response.

FINDING 9 AUTOMATED CASHIERING SYSTEM CONTROLS

The NCR needs to improve controls over its automated cashier system. Specifically, the Cash Custodian was granted a security level above her position giving her Inventory Custodian and sales capabilities. Cash Custodians should not be given any cashiering system capabilities.

The *Department of Fish and Game Customer Service Representative License Sales and Cash Handling Policies and Procedures*, page 1 states "CSRs are provided the minimum security level (Level 2) to allow for license sales. The Inventory Custodian is provided the next level of security (Level 4) to allow for inventory management. Supervisors are provided the next level (Level 6) to allow for clerk maintenance. System Administrators are provided the highest security level (Level 8) to allow for system maintenance. Inherent in the system is the capability for higher security levels to perform the functions of the lower levels, such as sales; however, it is a conflict of interest for high levels to perform license sales. The cash register system must not be used by anyone who has access to perform anything other than their assigned duties." In-addition, Page 27 states that supervisors generate cash register reports and verify the daily tender totals to the Cash Transfer Receipts for each CSR. The SAM, Section 5320.2, requires that designated owners of automated files authorize access to information in accordance with the need for such information and requires technical management to preserve the security and integrity of information assets.

The Cash Custodian has been given the duty of closing the registers and running the reports at the end of each sales day which requires a higher

security access level than is allowable for her position. Proper segregation of duties dictate the responsibilities of closing the registers and running the reports at the end of each sales day should rest with the RAO I. Without proper segregation of the Cash Custodian and RAO I duties, the NCR increases its risk that errors or irregularities may not be detected resulting in possible loss of State assets through theft and abuse.

RECOMMENDATION

The NCR should remove the Cash Custodian from any access to the automated cashier system and the RAO I should run all the required register reports in accordance with State and DFG policy.

NCR Response: The NCR agrees with the findings and recommendations to Finding 9. Changes have been made in accordance with this finding. The Cash Custodian does not have access to the automated cashier system.

AB Comments: We concur with the NCR response.

FINDING 10 SECURITY VIOLATIONS – MAIL ROOM

The NCR's physical security over the mail room needs to be improved. Specifically, the mail room is not secure. All NCR staff have access to the mail room. The mail room contains incoming mail with checks, money orders, and sometimes cash as well as inventory (licenses, permits, tags, and stamps) being received from the LRB.

The CGC, Section 13402, requires that a satisfactory system of internal accounting and administrative controls include a method to limit access to State assets to authorized personnel and to maintain a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. Further, the SAM, Section 8080, specifies an internal control system be established to ensure assets are safeguarded.

No security measures have been imposed on the mail room to limit access to only authorized mail room staff. It is possible that licenses, permits, tags, stamps and cash can be lost, stolen, or misplaced. Further, if these items are lost, stolen, or misplaced it may not be possible to place accountability to any one individual.

RECOMMENDATION

The NCR should improve its physical security of the mail room by limiting access to only authorized mail room staff.

NCR Response: The NCR agrees with the findings and recommendations to Finding 10. Due to the fact that the mail room at NCR services all staff in the building and the field, it is important to note the mail room is where the main network copier and fax machine are located. Limiting access to improve security would require additional staff and additional office space to house the office machines.

NCR is making changes in the delivery of the mail to an office tech and back-up staff that will open all mail and properly distribute licenses, permits, tags, stamps and cash to the AO II for deposit and distribution before the mail is then processed to the individual mail slots, thereby avoiding these items to remain in individual mail slots for security reasons.

AB Comments: We concur with the NCR response.

FINDING 11 IMPROPER REVIEW OF INVENTORY REPORTS

Inventory reports are not reviewed by the RAO I prior to submitting the reports to the LRB. Inventory reports are used by the LRB to remove returned license inventory from the LAS and to provide an accounting of the NCRs ongoing license inventory consignment.

The CGC, Section 13402, requires that a satisfactory system of internal accounting and administrative controls include a method to limit access to State assets to authorized personnel and to maintain a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. Further, the SAM, Section 8080, specifies an internal control system be established to ensure assets are safeguarded.

Without proper review of inventory reports at the NCR, the NCR is at increased risk that errors or irregularities involving the accuracy of its license inventory consignment could go undetected resulting in potential loss or theft of State assets.

RECOMMENDATION

The RAO I at the NCR should review inventory reports prior to submitting the reports to the LRB.

NCR Response: The NCR agrees with the findings and recommendations to Finding 11. Review and retraining to emphasize this part of inventory control will be incorporated in the corrective action identified in Finding 2.

AB Comments: We concur with the NCR response.

ATTACHMENT A
AUDITEE'S RESPONSE

Meredith Taylor - NCR Response to Audit

From: Teri Edwards
To: Taylor, Meredith
Date: 7/16/2010 3:01 PM
Subject: NCR Response to Audit
CC: Montrose, Tim; Smith, Kent
Attachments: WA-09-07 NCR Final Draft response te_7_16_10.doc

Hi Meredith,

Attached is our response to all the audit findings (Finding 1 - 11). Please let me know if you need any additional information.

Teri Edwards

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FINDING 1 MISSING DEPOSIT

A deposit for sales of May 20, 2009, in the amount of \$2,298.75 is missing. There is a question as to whether the deposit was taken to the bank or was misplaced/lost at NCR. There was no log as to who filled out the Report of Deposit (ROD) and who took the deposit to the bank. During the audit, the NCR instituted a log as to who completes the ROD and the individual that takes the deposits to the bank.

NCR Response

The NCR agrees with the findings and recommendations to Finding 1. The log has been incorporated into the procedures used to track deposits and positively reconcile each deposit and amount deposited, along with who completed the ROD and who made the deposit for the day.

FINDING 2 MISSING INVENTORY

The NCR must improve its inventory controls. Our initial physical inventory of licenses, permits, tags, and stamps valued at \$687,097 consigned to the NCR identified 197 books worth \$46,128 of missing inventory. Further review conducted later in the fieldwork phase resulted in 100 missing books being located at the LRB. These 100 books were removed from the NCR consignment. As a result, 97 books of inventory worth \$5,059 listed in the general consignment continues to be missing. The missing inventory consists of: three books of 2008 inventory worth \$785; 93 books of 2009 inventory worth \$4,186; and 1 book of 2010 inventory worth \$88.

NCR Response

The NCR Inventory Custodian and RAO II have received training on the process of returning books to LRB. NCR staff will attempt to locate the missing inventory, and if unable to locate, will clear the inventory through the declaration process. Inventory procedures are being reviewed and will be reinforced by retraining of those staff assigned with inventory control.

FINDING 3 COMPOSITION OF DEPOSITED AMOUNTS

The NCR does not always ensure Customer Service Representatives (CSRs) correctly key entered payments into the cashiering system and there appears to be an excessive amount of overages and shortages. A sample of 439 sales receipts were selected for substantive testing. Forty seven items

representing 11% of the sample disclosed cash, check, and credit card tender totals did not agree with the actual deposit information. For these 47 items, there were 24 overages and 23 shortages.

NCR Response

While the NCR agrees with the findings, the recommendations to Finding 3 are as much associated with the equipment and extensively modified accounting system used, as it is with the staff assigned to the duties of license sales. Any attempt to take corrective action with employees using this system would easily be challenged due to the system's age and degree of modification that has occurred over years of fixes. The Department has been slow to make the equipment and programming changes necessary.

On the other hand, the NCR has received training from LRB and management continues to emphasize the importance of accuracy with the CSRs for all transactions. The NCR continues to review the accuracy of cash tender totals and the composition of the deposits. The NCR would welcome working with LRB and HQ staff to develop and implement policies and procedures for the CSRs.

FINDING 4 UNTIMELY DEPOSITS

Deposits are not always made timely by the NCR. The NCR makes bank deposits every 10 days regardless of the amount of cash, checks, and money orders accumulated. However, we disclosed there were 23 deposits not made timely that contained over \$1,000 in cash.

NCR Response

The NCR agrees with the findings and recommendations to Finding 4. Retraining all staff involved with emphasize on this finding will be done. The NCR will make timely deposits according to SAM.

FINDING 5 IMPROPER REVIEW OF BANK DEPOSITS

The NCR does not always ensure that deposits slips (also called Report of Deposits) are correct before making a deposit at the bank. We selected a sample of 198 Report of Deposits (RODs) to conduct substantive testing. We disclosed 23 out of 198 (12%) sampled items had errors. We disclosed the date of the actual deposit varied from one to seven days compared to the date on the RODs. One ROD had an addition error.

NCR Response

At the NCR, the RAO II reviews and initials the deposits. We agree with the finding and recommendations to Finding 5. Procedural changes incorporated to address Finding 1 will emphasize the procedures necessary to comply with the recommendations in Finding 5 as well.

FINDING 6 CHECKS NOT RESTRICTIVELY ENDORSED

NCR does not ensure that all incoming checks and money orders are restrictively endorsed timely. Specifically:

- Individuals opening the mail do not always restrictively endorse the checks and money orders; and
- The CSRs have stated that they do not always endorse checks the same day received. Sometimes the CSRs wait until the day of deposit to endorse the checks. The checks have even been endorsed by the Cash Custodian when filling out the ROD for deposit.

NCR Response

The NCR agrees with the findings and recommendations to Finding 6. Retraining staff responsible for this task will emphasize the need to restrictively endorse checks as they are received and opened by mail, and not later than the date of receipt.

FINDING 7 SECURITY VIOLATIONS - SAFES

Access to the two safes at the NCR is not limited to key personnel. One safe is a key operated safe and a key has been provided to numerous NCR employees over the years. Although keys have been returned as staff have transferred, accepted jobs elsewhere, retired, or their respective duties have changed, the safe has never been re-keyed and there is no record of who has access to the safe, or if all the keys have been returned. The key operated safe contains cash for deposits. The other safe is a combination style safe. There is no record of who has access to the safe, how many staff were provided the combination, or when the combination was last changed. The combination safe contains the CSRs cash drawers. Anyone in the office potentially has access to both of the safes and their contents. Accordingly, should there be a theft of cash or other contents of the safes, it is not possible to determine individual accountability. Although the NCR has a

camera security system in-place to mitigate the increased risk of theft or loss, the camera security system is non-operational with no current plans to be repaired. In-addition, the camera security system does not provide coverage of the area of either safe.

NCR Response

The NCR agrees with the findings and recommendations to Finding 7. A new safe has been purchased (combination only) and is waiting for installation. All keys will be collected by those who had access to the old "keyed" safe and all combination safes will be changed and a log created and maintained to track when this and any further combination changes occur, along with the signatures of those who know the combination.

When the NCR is able to procure services, the security cameras will be repaired or replaced and in working condition.

FINDING 8 SEPARATION OF DUTIES

We observed the following separation of duty conflicts at the NCR:

- The Inventory Custodian orders, receives, compares received to ordered, logs, assigns to sales staff, and reconciles to the LAS reports all inventory for the NCR; and
- The Cash Custodian also prepares and makes the deposits.

NCR Response

The NCR agrees with the findings and recommendations to Finding 8, although we do not have the staff available to split all the duties outlined above, and supply back-up when necessary to cover vacations, sick leave, and vacancies. The NCR has worked with LRB to split duties to provide the best possible separation of duties given current staffing levels.

FINDING 9 AUTOMATED CASHIERING SYSTEM CONTROLS

The NCR needs to improve controls over its automated cashier system. Specifically, the Cash Custodian was granted a security level above her position giving her Inventory Custodian and sales capabilities. Cash Custodians should not be given any cashiering system capabilities.

NCR Response

The NCR agrees with the findings and recommendations to Finding 9. Changes have been made in accordance with this finding. The Cash Custodian does not have access to the automated cashier system.

FINDING 10 SECURITY VIOLATIONS – MAIL ROOM

The NCR's physical security over the mail room needs to be improved. Specifically, the mail room is not secure. All NCR staff have access to the mail room. The mail room contains incoming mail with checks, money orders, and sometimes cash as well as inventory (licenses, permits, tags, and stamps) being received from the LRB.

NCR Response

The NCR agrees with the findings and recommendations to Finding 10. Due to the fact that the mail room at NCR services all staff in the building and the field, it is important to note the mail room is where the main network copier and fax machine are located. Limiting access to improve security would require additional staff and additional office space to house the office machines.

NCR is making changes in the delivery of the mail to an office tech and back-up staff that will open all mail and properly distribute licenses, permits, tags, stamps and cash to the AO II for deposit and distribution before the mail is then processed to the individual mail slots, thereby avoiding these items to remain in individual mail slots for security reasons.

FINDING 11 IMPROPER REVIEW OF INVENTORY REPORTS

Inventory reports are not reviewed by the RAO I prior to submitting the reports to the LRB. Inventory reports are used by the LRB to remove returned license inventory from the LAS and to provide an accounting of the NCRs ongoing license inventory consignment.

NCR Response

The NCR agrees with the findings and recommendations to Finding 11. Review and retraining to emphasize this part of inventory control will be incorporated in the corrective action identified in Finding 2.